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OPPORTUNITIES IN PROVIDING DP SERVICES TO SMALL PROPERTY/CASUALTY COMPANIES

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Opportunities in Providing DP Services to Small Property/ Casualty Companies. March 1981

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OPPORTUNITIES IN PROVIDING DP SERVICES TO SMALL PROPERTY/CASUALTY COMPANIES

Prepared For:
INSCO SYSTEMS

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MARCH 1981

OPPORTUNITIES IN PROVIDING DP SERVICES TO SMALL PROPERTY/CASUALTY COMPANIES

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OPPORTUNITIES IN PROVIDING DP SERVICES TO SMALL PROPERTY/CASUALTY COMPANIES

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I EXECUTIVE SUMMARY

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I EXECUTIVE SUMMARY

A. BACKGROUND

- This study was undertaken to evaluate the receptivity of small property/casualty companies (direct premiums under $100 million) to turnkey data processing.

- INPUT interviewed 30 insurance companies (including five current INSCO clients) and five computer services vendors to provide original research for this study.

    - Information from other sources was also used.

        - Previous INPUT studies.

        - Standard reference guides (e.g. Best reports).

- The companies interviewed were in the northeast and midwest (INSCO's target areas) and were balanced between mutual and stock companies and companies of different sizes.

B. CHARACTERISTICS OF SMALL INSURANCE COMPANIES

- Generally, small companies are very different from large companies:
    - They are informal, with little bureaucracy.
    - They are flexible and react quickly to developments.
- Companies already have a significant amount of automation, with a wide range in the amount of automation.
    - One-sixth used traditional batch data processing.
    - One-eighth used interactive systems.
    - The remaining companies were using remote job entry for at least part of their operation.
- Companies had levels of satisfaction with current automation that typically range between good and excellent.
- In-house hardware and software predominated even in these small companies.
    - Companies would prefer to use in-house hardware and software in order to maximize their flexibility and control.
        - They recognize, however, that they will have to turn increasingly to software packages from ISA and PMS in order to deal with on-line and data base applications.
        - While ISA and PMS packages were viewed by most respondents as being unsuitable for small companies, such companies currently have little other choice.

  - Fewer than 10% of respondents had a favorable attitude toward either remote processing services or turnkey systems.
    - Both were felt to be lacking in responsiveness, flexibility and control.
    - Most existing users of remote processing services were planning to eliminate use of these services.
    - No users were planning to install turnkey systems.

- Almost one-third of the companies were planning to install entirely new data processing systems.
  - Almost all remaining companies were planning to make significant enhancements to their current systems.
  - The motivation was that they felt a strong need to have on-line systems and other modern data processing techniques.

C. MARKET SIZE

- There are over 2,500 property/casualty companies in the U.S.
  - Of these, about 800 have between \$4 million and \$100 million in annual direct premiums. This is the INSCO target group.
- About one-third of companies do a significant amount of personal lines business.
- Roughly 50% of all companies are located in INSCO's target geographic area (the northeast and midwest).

- Companies' membership in groups is the largest current imponderable. INPUT has made the following estimates based on sample data:
    - About 15% of all companies are in groups with over $100 million in premiums.
    - On the average, 40% of all companies are group members and there appear to be about two companies per group.
    - Taking all these factors together, these appear to be about 190 potential "buying points" (i.e., an independent company or group between $4 and $100 million) for personal lines data processing services in the U.S.
        - Half this number, or 95 companies, are located in INSCO's target geographic area.
        - If commercial line-oriented products were also offered, the potential market would expand to 570 companies.
- INPUT has recommended that the Best tapes be used to provide precise market sizing information. INPUT has provided computer program specifications to accomplish this.

D. COMPETITIVE ENVIRONMENT

- PMS and ISA are, by far, the leading companies.
    - They are currently the only feasible source of software for smaller companies.

  - They are direct competitors already for INSCO in the under $100 million market.
    - Almost 60% of PMS's software customers are under $100 million.

- There appear to be a considerable number of smaller firms that are insurance company spin-offs.
  - Three of the 30 firms interviewed for the study had associated processing service companies.

- Three firms are currently offering turnkey systems and their penetration has been low.
  - PMS.
    - One sale out of sixteen in 1980.
  - Lycor.
    - Seven or eight sales since 1974.
  - AID.
    - One sale (to the Andover Group).
    - Andover is considering eliminating the system because of its limited expansion capabilities.

- Respondents in insurance companies have a definite preference toward IBM-based turnkey systems.
  - Honeywell hardware did not receive any expressions of preference.

E. RECOMMENDATIONS

- INPUT does not believe INSCO would find a ready market for a turnkey product and, consequently, recommends against proceeding further to develop or acquire such a product.

    - Lycor would appear to be a better vehicle than AID, if INSCO intended to offer a turnkey product.

- INPUT's research has uncovered a gap in existing commercial offerings. A product to fill this gap would have the following characteristics:

    - It would be technically advanced and run on IBM hardware.

    - The software would be a purposely incomplete skeleton that would enable each company to tailor the logic to its own needs.

    - The skeleton could be a combination of largely off-the-shelf components, e.g., a commercial data base management system and associated teleprocessing software.

- This kind of new product should have marketing advantages over PMS/ISA since it would allow the small company better flexibility and control compared to the PMS/ISA products.

II BACKGROUND AND METHODOLOGY

II BACKGROUND AND METHODOLOGY

A. BACKGROUND

- INSCO Systems now provides remote processing to several dozen insurance companies for some combination of policy writing, rating and statistical reporting.
  - About one-third of these are significant accounts.
- INSCO has been concerned for some time over the erosion of demand for its processing service.
  - Very few sales have been made recently.
  - Some customers have been lost.
  - Others have indicated that they are thinking of using alternative sources of processing.
- To some extent this erosion may have been caused by the type of product now being offered by INSCO.
  - The current product is batch oriented based on 8- to 10-year-old Continental software.

  - INSCO cannot market some of the newer, presumably more attractive, software developed by Continental more recently.

- INSCO has been exploring the possibility of marketing a minicomputer-based turnkey system that would allow insurance companies to perform their processing on their own premises.

  - INSCO has had discussions with AID over taking the AID-developed system now on a Microdata Reality and putting it on a Honeywell Level 6.

  - The AID system does policy issuance and rating for homeowners only and would require significant enhancement.

  - In-house (i.e., INSCO) development is another possibility.

- INSCO has assumed that the best market for a future turnkey system would be insurance companies with the following characteristics.

  - Small to medium sized, i.e., direct premiums between $10 and $100 million.

    - The rationale is that companies smaller than this would not have an interest in such a system and/or not be desirable customers.

    - Larger companies would have in-house systems or be potential clients for ISA or PMS, the leading firms in both insurance processing and software.

    - INSCO does not wish to be in direct competition with ISA or PMS.

  - A significant amount of business in personal lines.

    - INSCO now offers services largely in personal lines.

    - Personal lines have been the principal area of insurance company automation to date.

- Companies in the northeast and midwest states (i.e., Washington DC on the south and Chicago on the west).

B. ORIGIN OF THIS STUDY

- INSCO decided that before proceeding further it wished to understand its market better, specifically:
    - The extent of current automation and future plans.
    - Vendor versus in-house development.
    - Attitudes toward general systems approaches, including turnkey systems.
    - Important factors in selecting an outside vendor.
    - The importance of the specific hardware used for a turnkey system (i.e., IBM versus Honeywell).
    - INSCO's image in the marketplace.
- In addition INSCO wished to have an outside appraisal of:
    - The general market for DP services in small to medium-sized companies.
    - The kinds of services that should be marketed.

  - Desirable market segments.
  - The right technical approach (e.g., turnkey systems).
  - The competitive environment.

- INPUT submitted a proposal in October 1980 which addressed these issues. It was accepted by INSCO in November and work began in December.

C. SAMPLE CHARACTERISTICS

- As specified in the proposal, in-depth interviews were held with 30 insurance companies and five DP services vendors (see list in Appendix A).

- Companies were selected from the northeast and midwest and had direct premiums under $100 million and had a significant amount of personal lines business.

- Orginally, the sample was to consist of companies with $10 to $100 million in direct premiums, and a majority of personal line (homeowners and private auto) business.

- The sample was broadened in the course of study so that a company with $25 to $100 million in total direct premiums was included if it had at least $10 million in personal lines.

  - A company with $4 to $25 million in total direct premiums was included if it had at least $4 million in personal lines.

- This redefinition was adopted (after consultation with INSCO staff) after several interviews which indicated that companies with less than a majority of personal lines business were still quite interested in personal lines automation as long as it represented a significant dollar value of business.

- About 35% of property/casualty companies of between $4 and $100 million meet the broadened requirements.
  - About 20% would meet them using the original definitions.

- Over half the companies interviewed were stock companies, as shown in Exhibit II-1. Almost half were members of a larger group.
  - With one exception, a company was excluded from the interview process if it was the member of a group whose total direct property/casualty premiums exceeded $100 million.
  - This approach was taken because it was felt that in many cases the sampled company would be integrated with the group and, hence, functionally speaking, a much larger company.
  - The company interviewed (Middlesex) bore out this hypothesis.

- Slightly over half the companies interviewed had direct premiums of over $25 million, as shown in Exhibit II-2.
  - Mutual and stock companies in the sample were of similar sizes, except that there were more very small (under $10 million) stock companies represented.

D. RESEARCH APPROACH

- An interview guide was developed and reviewed with INSCO staff. A copy of the questionnaire is included in Appendix D.

EXHIBIT II-1

CHARACTERISTICS OF INTERVIEW SAMPLE - COMPANY TYPE

COMPANIES	TYPE OF COMPANY		
	MUTUAL	STOCK	TOTAL
INDIVIDUAL	8	9	17
MEMBER OF GROUP	5	8	13
TOTAL	13	17	30

A COMPANY WITHIN A GROUP WAS EXCLUDED IF THE GROUP WAS TOO LARGE.

EXHIBIT II-2

CHARACTERISTICS OF INTERVIEW SAMPLE - COMPANY SIZE

SIZE OF COMPANY*	TYPE OF COMPANY		
	MUTUAL	STOCK	TOTAL
UNDER $10 MILLION	1	4	5
BETWEEN $10 AND 25 MILLION	5	4	9
BETWEEN $25 AND 100 MILLION	7	9	16
TOTAL	13	17	30

*DIRECT PREMIUMS.

- As specified in the proposal, nine interviews (all with insurance companies) were held on-site; the remaining were conducted by telephone. Interviews were conducted in December 1980 and January 1981.

- Insurance company interviews were generally held with either the director of data processing or that person's superior (who generally had a title equivalent to vice president). Nominal titles, however, varied greatly.

- Because of the holiday season and end of year processing, respondents were generally very busy. However, they were almost without exception very candid and forthcoming.

- Most respondents showed a high level of interest in the issues raised by the interview and wished to know "how they stacked up." In many cases respondents voluntarily raised issues that, while outside the bounds of the questionnaire, proved very helpful in understanding the larger problems facing the industry and the role that data processing could play in solving these problems.

III COMPANY EXPERIENCE AND PLANS

III COMPANY EXPERIENCE AND PLANS

A. GENERAL CHARACTERISTICS

- Even the large companies had the attributes of small business.

- They are informal, with little bureaucracy, e.g.,

    - There are very few formal data processing budgets.

- There is great flexibility in management and organization.

    - Top management is intimately involved in all important issues.

    - There is little permanent specialization in clerical duties.

- Manual systems appear to have significant flexibility and efficiency, as a result of the informality, relatively small size and organizational cohesion.

    - A newly appointed manager of one of the large companies, who has a strong DP background stated that a DP replacement for his largely manual system would not improve speed, accuracy or decrease costs. (It would, however, provide additional management information and control.)

- More aggressive companies react very quickly to the marketplace. These companies are usually, but not always, stock companies.
  - Companies feel their systems must respond as quickly as their program changes.
  - Small companies see themselves as having to react more quickly than large ones, if they are to survive.
- Automation is viewed as useful, but not magic.
  - Most data bases in small companies are perceived as being too small to obtain underwriting advantages.
  - This limits one of the potential attractions of data processing.
- Companies view themselves as being unique.
  - Senior VP (operations) - "I've been in four companies and it's hard to say why, but each one has been unique (administratively). The same computer system could not meet all their needs."
  - There is an underlying objective truth in this. However, the perceived uniqueness is an even more important factor.

B. CURRENT AUTOMATION

- There was a wide range in the amount of automation currently employed.
  - One-sixth of the firms were traditional batch installations or, at the most, used remote job entry (RJE) for statistical reporting only.

- One-eighth were using interactive systems.

- The remainder (over two-thirds) were using RJE for at least some portion of their ongoing operations.

- The level of automation was quantified by assigning a weight to the amount of automation now employed, as follows:

Weight	Extent of Automation
5	On-Line Interactive, all functions, all lines.
4	On-line Interactive, significant but less than above.
3	RJE, all significant business, at least rating and policy issuance.
2	RJE, less than above.
1	Batch or RJE statistical reporting only.

- There appear to be no significant differences in automation between different company types or sizes, as shown in Exhibit III-1.

- No relationships were evident, in contrasting the extent of automation, to:

  - Financial assets (per Best's).

  - Best's Policyholder Rating.

  - Combined ratios.

  - Expense ratios.

- Other relationships might become apparent if a larger size sample were employed, but it is unlikely that any relationships that emerged would be striking.

EXHIBIT III-1

CURRENT AUTOMATION BY COMPANY TYPE AND SIZE

COMPANY TYPE	AUTOMATION* LEVEL
MUTUAL	
UNDER $25 MILLION	2.2
OVER $25 MILLION	2.6
TOTAL	2.4
STOCK	
UNDER $25 MILLION	2.4
OVER $25 MILLION	2.0
TOTAL	2.2
TOTAL	
UNDER $25 MILLION	2.3
OVER $25 MILLION	2.2

*NUMERIC VALUE AS DEFINED IN TEXT.

- Automation satisfaction expressed was uniformly good, as shown in Exhibit III-2. These ratings must, however, be balanced by the following factors:

  - In few cases did the assessments appear to be consciously self-serving. However, all respondents were responsible for data processing.

  - Part of the satisfaction was no doubt due to the relatively modest amount of automation present in many companies. Since users were not overly dependent or concerned about data processing, there would be fewer complaints.

  - The announced satisfaction seemed to have no bearing on ambitious plans for change in many companies.

C. SOURCES OF CURRENT COMPUTER SERVICES

- In-house hardware and, somewhat surprisingly, in-house developed software are very strongly entrenched, as shown in Exhibit III-3.

  - This extends quite uniformly across company type and company size.

  - In-house hardware is evenly divided between IBM and non-IBM equipment.

    . However, only one-third of companies under $25 million have IBM hardware, while almost two-thirds of those above $25 million have IBM hardware.

    . A large part of the difference is probably due to the IBM hardware costing more and this being of greater concern to a small company.

EXHIBIT III-2

LEVEL OF SATISFACTION WITH CURRENT AUTOMATION

COMPANY TYPE	SATIS-FACTION LEVEL*
MUTUAL	
UNDER $25 MILLION	4.2
OVER $25 MILLION	3.3
TOTAL	3.8
STOCK	
UNDER $25 MILLION	3.5
OVER $25 MILLION	3.9
TOTAL	3.7
TOTAL	
UNDER $25 MILLION	3.8
OVER $25 MILLION	3.6

*AVERAGE RATING WHERE 1 = LOW, 3 = AVERAGE, 5 = HIGH.

EXHIBIT III-3

IN-HOUSE HARDWARE AND SOFTWARE

COMPANY TYPE	IN-HOUSE HARDWARE	IN-HOUSE DEVELOPED SOFTWARE
MUTUAL	75%	67%
STOCK	85	69
UNDER $25 MILLION	90	80
OVER $25 MILLION	73	60
TOTAL	80%	68%

NOTE: THE FIVE INSCO CUSTOMERS WERE EXCLUDED FROM THE TABULATION.

- Outside sources of computer services are important, but no more significant than in-house sources, as shown in Exhibit III-4.

  - Interestingly, a processing service from an affiliated company is as important as vendor processing services.

  - The cause is not clear, but large companies appear to be more prone to use the processing services of affiliated companies.

  - Large companies are also more likely to use vendor-supplied software. This is likely to be because large companies are marketing targets. In addition they have the resources to handle this complex software.

D. ATTITUDES TOWARD DIFFERENT SOURCES OF AUTOMATION

- The attitudes which respondents had toward different sources of automation were felt to be an important factor in the research, since their buying patterns and future receptivity to different approaches would be affected.

- The interview process examined the following alternatives.

  - Manual systems.

  - Computer systems.

    - In-house data processing.

      (1) Hardware.

      (2) Software/insurance applications.

        (a) In-house written.

EXHIBIT III-4

OUTSIDE SOURCES OF COMPUTER SERVICES

COMPANY TYPE	PROCESSING SERVICE (PERCENT)		
	AFFILIATED COMPANY	VENDOR	VENDOR SOFTWARE
MUTUAL	17%	17%	33%
STOCK	15	23	31
UNDER $25 MILLION	0	30	20
OVER $25 MILLION	27	13	40
TOTAL	27%	20%	32%

NOTE: 1. LINES CANNOT BE SUMMED HORIZONTALLY BECAUSE FOUR COMPANIES USE MORE THAN ONE SOURCE OF SERVICE.

2. THE FIVE INSCO CUSTOMERS WERE EXCLUDED FROM THIS TABULATION.

(b) Vendor-supplied.

  - Vendor remote processing services.

  - Turnkey systems.

- Because of the importance to the study of attitudes toward turnkey systems, care was taken to ensure a uniform definition of turnkey systems.

  - The major functional distinctions between turnkey systems and vendor-supplied software are contrasted in Exhibit III-5.

  - A similar sheet to Exhibit III-5 was used in the interview process to resolve any questions respondents had along the lines of "What do you mean by a turnkey system?"

- Generally speaking, respondents had very favorable attitudes toward in-house hardware and software, as shown Exhibit III-6.

  - These percentages are almost exactly the same as current usage levels. This definitely does not mean that people are satisfied with their present mode of processing.

  - Of the ten respondents without in-house hardware, seven have a positive attitude toward in-house hardware, three are neutral or have no opinion and more have a negative attitude.

- No one had anything good to say about processing services.

  - There is a basic aversion by companies to this kind of service because of:

    - Lack of control.

EXHIBIT III-5

FUNCTIONAL DIFFERENCES BETWEEN TURNKEY SYSTEMS AND VENDOR-SUPPLIED SOFTWARE

CHARACTERISTIC	VENDOR SOFTWARE	TURNKEY
HARDWARE SUPPLIED WITH SOFTWARE?	NO	YES
HARDWARE/SOFTWARE COMBINATION COMPATIBLE?	NOT NECESSARILY (ESPECIALLY IF USING EXISTING HARDWARE)	YES
OPERATING SYSTEM COMPATIBLE WITH APPLICATIONS SOFTWARE?	NOT NECESSARILY (MAY REQUIRE ONGOING CUSTOMER EFFORT)	YES (BOTH SUPPLIED)
LEVEL OF INSTALLATION/ CONVERSION SUPPORT BY VENDOR.	VARIES	HIGH
EXTENT OF TECHNICAL KNOWLEDGE AND SELF SUPPORT REQUIRED OF CUSTOMER	VARIES - OFTEN MEDIUM-HIGH	USUALLY LOW
LEVEL OF "HAND HOLDING" BY VENDOR	VARIES	HIGH
EXTENT TO WHICH CUSTOMERS ARE ALLOWED TO MODIFY SOFTWARE	MEDIUM-HIGH	LOW-MEDIUM
EXTENT OF "USER FRIENDLINESS" IN SOFTWARE	VARIES - OFTEN ORIENTED TO TRADITIONAL DATA PROCESSING DEPARTMENT	VARIES, BUT USUALLY END USER ORIENTED

EXHIBIT III-6

ATTITUDE TOWARD DIFFFERENT SOURCES OF AUTOMATION

TYPE OF SYSTEM	ATTITUDES (PERCENT)		
	POSITIVE	NEGATIVE	NEUTRAL/ NONE
MANUAL SYSTEMS	7%	50%	43%
IN-HOUSE HARDWARE	83	3	14
IN-HOUSE DEVELOPED SOFTWARE	70	10	20
VENDOR PROCESSING SERVICE	0	47	53
VENDOR (INSURANCE) SOFTWARE	27	37	36
TURNKEY SYSTEMS	7	40	53

NOTE: 30 RESPONDENTS

        - Lack of flexibility.

        - Slow and/or late processing.

- Feelings were mixed on vendor software for insurance applications.

- Interestingly, manual systems and turnkey systems had very uniform profiles, with few positive attitudes and about half the opinions negative.

    - In the case of manual systems, those that held no opinion usually did so because the respondent assumed they were on their way out and did not deserve thinking about.

- Turnkey systems are, of course, in a totally different category and the interviews probed the reason for respondents' attitudes.

    - An important reason is that most respondents have had very little knowledge or exposure to turnkey insurance systems.

    - Another factor that was rarely made explicit was fear for their own in-house DP function. This did not appear to be a primary factor for most respondents since their personal position would be secure in any event.

    - The more thoughtful and knowledgeable respondents had given some thought to turnkey systems and had an implicit image of the characteristics of a turnkey customer. INPUT has made these characteristics explicit in Exhibit III-7, based on this study as well as on information gained in related studies.

        - The match between these characteristics and those of the typical insurance company in this study is not at all close.

- Respondents felt that turnkey systems would have many of the same flaws as vendor processing and vendor software:

EXHIBIT III-7

PROFILE OF A TURNKEY CUSTOMER

- CUSTOMER CHARACTERISTICS.
  - LITTLE DATA PROCESSING EXPERIENCE, UNSOPHISTICATED.
  - NO ON-SITE DATA PROCESSING.
  - POTENTIAL FOR IMMEDIATE TURNKEY IMPACT.
  - FEW UNIQUE CUSTOMER NEEDS, ACTUAL OR PERCEIVED.
  - LITTLE RESISTANCE TO CHANGING ADMINISTRATIVE SYSTEMS TO CONFORM TO SYSTEM.
  - CUSTOMIZATION BY CUSTOMER OR EASY TO DO BY VENDOR.
- SUCCESS INDUSTRY: AUTO DEALERS.

  - Their unique needs could not be met by generalized software.

- Turnkey systems were perceived as being very simplistic.

  - Basic changes to logic would take a long time.

  - Companies could not set their own priorities for making changes.

  - Extra services would be difficult or expensive to obtain.

  - In general, their company would lose control over data processing.

E. COMPANIES' FUTURE AUTOMATION PLANS

- Companies were quite forthcoming with their future automation plans. The timing was, however, difficult for them to forecast.

  - None had a realistic budget/planning process.

  - Recent underwriting experience has been uniformly poor and significant expenditures would have to await a return to financial health.

  - In many companies "a year is the long term" and the picture could look quite different from that painted today.

- However, INPUT was able to make judgements on the likelihood of planned work starting within three years and has classified certain companies as likely to start work enhancements to automation within three years. Enhancements have been classified as follows:

  - An entirely new system.

- Significant enhancements.
    - Adding a major function (e.g., rating).
    - Adding one or more lines.
- Few/no changes.

- Out of 30 companies, 17 are planning significant enhancements and nine are planning entirely new systems, as shown in Exhibit III-8.
    - There is relatively little variation by type or size of company.

- The most significant findings concerning the source of future software are that:
    - No turnkey systems are planned.
    - No new vendor processing is planned for future systems.
        - One company is planning to continue using a vendor processing service.

- There is almost an even split between companies planning in-house development and those planning to use vendor software, as shown in Exhibit III-9.
    - It appears that a greater amount of in-house development is planned by smaller mutuals.

- Twice as many companies planning entirely new systems intend to use vendor software while this ratio is reversed for those planning significant enhancements, as shown in Exhibit III-10.

EXHIBIT III-8

COMPANIES' FUTURE SYSTEM PLANS

COMPANY TYPE	NUMBER OF COMPANIES PLANNING:			
	ENTIRELY NEW SYSTEMS	SIGNIFICANT ENHANCEMENTS*	SUBTOTAL NEW AND ENHANCEMENTS	FEW/NO CHANGES
MUTAL	2	9	11	2
STOCK	7	8	15	2
UNDER $25 MILLION	4	8	12	2
OVER $25 MILLION	5	9	14	2
TOTAL	9	17	26	4

*ADDING MAJOR FUNCTIONS (E.G., RATING) OR EXPANDING LINES COVERED.

EXHIBIT III-9

SOURCES OF SOFTWARE FOR COMPANIES' FUTURE SYSTEMS

COMPANY TYPE	NUMBER OF COMPANIES PLANNING:	
	IN-HOUSE DEVELOPMENT	VENDOR SOFTWARE
MUTUAL		
UNDER $25 MILLION	4	1
OVER $25 MILLION	2	5
TOTAL	6	6
STOCK		
UNDER $25 MILLION	4	3
OVER $25 MILLION	4	3
TOTAL	8	6
UNDER $25 MILLION	8	4
OVER $25 MILLION	6	8
TOTAL COMPANIES	14	12

EXHIBIT III-10

SOURCES OF SOFTWARE SOFTWARE FUTURE SYSTEMS

SOURCE OF SOFTWARE	NUMBER OF COMPANIES PLANNING: ENTIRELY NEW SYSTEMS	NUMBER OF COMPANIES PLANNING: SIGNIFICANT ENHANCEMENTS	TOTAL
IN-HOUSE DEVELOPMENT	3	11	14
VENDOR SOFTWARE	6	6*	12
DON'T KNOW	1	1	2

*INCLUDES ONE COMPANY WHICH WILL CONTINUE TO USE REMOTE PROCESSING.

  - The number of companies planning to use vendor supplied software is especially significant since only half of them have a favorable attitude toward it.

  - What is not clear from the numbers is whether:

    - Companies choose vendor software because they need entirely new systems.

    - Or companies are forced to go to entirely new systems because of the limitation of vendor software in blending with current systems.

    - Few companies would lightly enter into a conversion process.

- Much of the motivation for using vendor software is probably explained by the desire to expand current systems to do on-line interactive processing.

  - Few companies' current systems can be easily expanded to do interactive processing.

  - In INPUT's opinion most companies do not have the time, resources or confidence to develop an on-line data base system.

  - Consequently, it is very reasonable that two-thirds of companies planning to use vendor software have important on-line system plans, while less than one-third of those planning in-house development have such plans, as shown in Exhibit III-11.

- This also explains a large part of the apparent contradiction in companies without a favorable opinion of vendor software using it anyway: while they might prefer in-house development, they cannot see how it is feasible.

EXHIBIT III-11

ON-LINE OBJECTIVES MOTIVATE SOFTWARE SELECTION

SOURCE OF SOFTWARE FOR FUTURE SYSTEMS	NUMBER OF COMPANIES SELECTING	COMPANIES WITH IMPORTANT ON-LINE SYSTEMS PLANS	PERCENT
IN-HOUSE DEVELOPMENT	14	4	29%
VENDOR	12	8	67
TOTAL	26	12	-

F. SUMMARY OF CURRENT PROCESSING AND FUTURE PLANS

- Within the sample of companies interviewed, the number of companies using vendor service will remain stable. However, the ratios of those using processing services and software should reverse dramatically, as shown in Exhibit III-12. In-house development will remain virtually the same.

- Within small-medium insurance companies, INPUT expects to see a marginal gain and loss in in-house hardware and software, respectively, in the next three years. Vendor software should double its usage while vendor processing should fall by almost half; turnkey systems will remain at their present low levels, as shown in Exhibit III-13.

G. VENDOR SELECTION PROCESS

- The most important factors are those which bear on how the system or service will function after acquisition, as shown in Exhibit III-14. These include:

  - Reliability.

  - Time and effort to implement.

  - Flexibility.

  - User control.

  - Support and training.

  - Response time (if company is going on-line).

EXHIBIT III-12

SOURCES OF SOFTWARE: PRESENT AND FUTURE

SOURCE OF SOFTWARE	NUMBER OF COMPANIES	
	PRESENT	FUTURE*
IN-HOUSE		
- OWN DEVELOPMENT	17	16
- AFFILIATED COMPANY	3	1
TOTAL	20	17
VENDOR		
- PROCESSING SERVICE**	10	2
- SOFTWARE	3	11
TOTAL	13	13
DON'T KNOW	-	2

* TWO COMPANIES PLANNING TO USE TWO SOURCES.

** NOTE: NOT RANDOM, INCLUDES FIVE INSCO CLIENTS.

EXHIBIT III-13

CHANGES IN INSURANCE PROCESSING (TARGET SEGMENTS)

PROCESSING TYPE	1980 (PERCENT)	1983 (PERCENT)
IN-HOUSE HARDWARE	80%	90%
IN-HOUSE DEVELOPED SOFTWARE	70	55
VENDOR-SUPPLIED SOFTWARE	15	35
VENDOR PROCESSING SERVICE	25	15
TURNKEY SYSTEMS	5	5

NOTE: COLUMNS DO NOT TOTAL 100% BECAUSE OF OVERLAPPING.

SOURCE: SURVEY RESULTS AND INPUT ESTIMATES.

EXHIBIT III-14

IMPORTANCE OF VENDOR SELECTION FACTORS TO COMPANIES

RANKING OF FACTOR	FACTORS	COMMENTS
HIGH	• SYSTEM RELIABILITY • TIME AND EFFORT TO IMPLEMENT • FLEXIBILITY • USER CONTROL • SUPPORT AND TRAINING	• FACTORS ARE IMPORTANT AFTER ACQUISITION • INVOLVE IMPLEMENTATION AND OPERATION
MEDIUM-HIGH	• REPUTATION/REFERENCES • COST • SYSTEM FEATURES	• FACTORS ARE IMPORTANT BEFORE ACQUISITION
MEDIUM	• RESPONSE TIME • VENDOR SIZE	• RESPONSE TIME IMPORTANT TO THOSE GOING ON-LINE
MEDIUM-LOW	• NUMBER OF CURRENT CUSTOMERS • GEOGRAPHIC LOCATION OF VENDOR	

- The amount of system features are not as important, per se, as the ability to satisfy particular needs.

- Almost as important are factors relating to deciding on the acquisition.

  - Vendor reputation.

  - Cost.

- Vendor perceptions of customer selection criteria are very similar to those expressed by customers, as shown in Exhibit III-15.

  - Vendors overstate the importance of transaction turnaround (probably because they are more used to dealing with large companies and/or on-line systems).

  - Vendors also overstate the importance of vendor size (vendors of all sizes seem to value size).

  - The importance of the extent of user control is underrated by vendors, perhaps reflecting wishful thinking since their products are all deficient in that respect.

- Less important are extrinsic vendor characteristics.

  - Size.

  - Number of customers.

  - Geographic location.

- Generally speaking the purchasing process is similar for all companies, as shown in Exhibit III-16.

EXHIBIT III-15

IMPORTANCE OF VENDOR SELECTION FACTORS TO COMPANIES: VENDORS' PERCEPTIONS

RANKING OF FACTOR	FACTORS	POSITION ON LIST		SIGNIFICANT DIFFERENCE
		VENDORS	COMPANIES	
HIGH	REPUTATION/REFERENCES	1	6	-
	SYSTEM RELIABILITY	2	1	-
	FLEXIBILITY	3	3	-
	TRANSACTION TURNAROUND	4	9	X
	VENDOR SIZE	5	10	X
MEDIUM-HIGH	TIME AND EFFORT TO IMPLEMENT	6	2	-
	SUPPORT AND TRAINING	7	5	-
MEDIUM	EXTENT OF USER CONTROL	8	4	X
	SYSTEM FEATURES	9	8	-
	NUMBER OF CURRENT CUSTOMERS	10	11	-
MEDIUM-LOW	GEOGRAPHIC LOCATION OF VENDOR	11	12	-
	COST	12	7	-

EXHIBIT III-16

RESPONSIBILITY FOR RECOMMENDING AND DECIDING DATA PROCESSING PURCHASES

COMPANY TYPE	RECOMMENDS		DECIDES		
	DP MANAGER	"VICE PRES" OVER DP MANAGER	PRESIDENT	COMMITTEE	OTHER
MUTUAL	10	3	8	3	2
STOCK	9	7	9	5	3
UNDER $25 MILLION	10	3	9	3	2
OVER $25 MILLION	9	7	8	5	3
TOTAL	19	10	17	8	5

  - Evaluation and recommendation is made by the DP manager (in smaller firms) or his superior (usually someone with a title equivalent to vice president).

  - The final decision is made by the president (typically in smaller firms) or by a committee of senior officers.

  - The key factor, often overlooked in the marketing process, is to make sure that the correct persons are identified for making both the recommendation and decision.

- Exhibit III-16 may, however, give an unintended impression of formality and logic to the process. A somewhat atypical, but illustrative, example of the purchasing process in one company (in the $20 to $30 million category) is given below to provide balance.

  - The company has used the following kinds of processing in the last ten years.

    - Service bureau.

    - IBM System 3, in-house operation.

    - Facilities management (using Honeywell).

    - Honeywell, in-house operation.

  - The company's president talked to the head of another company on the golf course.

  - The other company, in a start-up mode, was very impressed with ISA: "Couldn't have handled business without it."

  - The DP director opposed the decision (for a mixture of good and bad reasons) and was forced to resign.

  - This company has been committed to ISA for 18 months.

    - All data processing staff but one have gone.

    - Company is committed to $200,000 for software.

    - Package modification costs are much higher than expected ($50,000+).

    - The company cannot develop a conversion plan because it does not want to make internal changes and cannot agree on priorities.

    - User department involvement is not deep and they do not understand the impact the new system could/should have.

- Respondent is very pessimistic.

IV MARKET SEGMENTATION AND SIZE

IV MARKET SEGMENTATION AND SIZE

- In segmenting the market, the following factors should be taken into account.
  - Overall company size.
  - Size of personal lines business.
  - Company groups.
  - Geographic location.

A. THE UNIVERSE OF PROPERTY/CASUALTY COMPANIES

- There are approximately 2,575 property/casualty companies in the U.S., as shown in Exhibit IV-1.
  - However, for the purposes of this study there are approximately 1,100 companies with direct premiums greater than $2 million.
    - 800 stock.
    - 300 mutual.

EXHIBIT IV-1

PROPERTY/CASUALTY COMPANIES

COMPANY TYPE	NUMBER OF COMPANIES	
● STOCK COMPANIES	-	1,000
- UNDER $2 MILLION (DIRECT PREMIUMS)	200	-
- OVER $2 MILLION (DIRECT PREMIUMS)	800	-
● MUTUAL COMPANIES	-	1,600
- "LEADING" MUTUALS (PER BEST)	300	-
- OTHER MUTUALS	1,300	-
● OTHER (LLOYDS, RECIPROCALS, FACTORY MUTUALS)		75
TOTAL	-	2,575

SOURCE: INPUT ANALYSIS OF 1978 BEST DATA

- Of the approximately 950 companies between \$2 and \$100 million, the 270 companies over \$25 million make up about one-quarter of the companies but account for two-thirds of direct premiums, as shown in Exhibit IV-2.

  - All things being equal, these would be the best market.

- Exhibit IV-3 takes the total premium volume from Exhibit IV-2 and calculates the following:

  - DP expenses, assuming they are 2% of total premiums (a ratio used by a major services vendor).

  - A range of market size for outside services.

    - A top limit of 75% of the DP budget (e.g., in a vendor processing environment).

    - A lower limit of 25% (the current average is 35% of total DP budgets for all sizes of companies; small companies probably devote a somewhat higher percentage to data processing than large companies for a given level of automation because of economies of scale).

B. AMOUNT OF PERSONAL LINES BUSINESS

- Personal lines are defined as private auto and homeowner.

- Using the selection criteria adopted for this study, approximately 35% of U.S. property/casualty companies have a significant amount of personal lines business, i.e.,

EXHIBIT IV-2

TARGET COMPANIES BY SIZE (1978 DATA)

SIZE RANGE DIRECT PREMIUMS ($ MILLION)	NUMBER OF COMPANIES*	AVERAGE SIZE DIRECT PREMIUMS - ($ MILLION)	TOTAL PREMIUM VOLUME ($ BILLION)
$2-3.9	150	$2.5	$ 375
$4-9.9	260	6	1,560
$10-24.9	270	16	4,320
$25-99.9	270	50	13,500
TOTAL	950	-	$19,755

*NOT AGGREGATED BY GROUP.

SOURCE: INPUT ESTIMATES BASED ON INSCO BEST REPORT LH42-612.

EXHIBIT IV-3

POTENTIAL MARKET SIZE:
DATA PROCESSING SERVICES AND PRODUCTS

(1978 DATA; $ MILLION)

SIZE RANGE DIRECT PREMIUMS ($ MILLION)	DATA PROCESSING EXPENSES AT 2% OF DIRECT PREMIUMS	MARKET SIZE FOR OUTSIDE SERVICES	
		AT 75% OF DATA PROCESSING BUDGET	AT 25% OF DATA PROCESSING BUDGET
$2-3.9	$ 8	$ 6	$ 2
$4-9.9	21	15	6
$10-24.9	58	44	14
$25-99.9	270	200	70
TOTAL	$357	$265	$92

  - Companies with $25 to $100 million in direct premiums that have at least $10 million in personal lines.

  - Companies with $4 to $25 million in direct premiums that have at least $4 million in personal lines.

  - If a company is a member of a group, the group's total business was taken into account for both total premiums and personal lines.

- This estimate was based on a sample of several hundred companies selected at random for the purpose of conducting interviews.

C. GROUPS

- There are approximately 275 groups which include a property/casualty company.

- There are approximately 1,200 companies in these groups. Based on an analysis of companies sampled from Best's Key Ratings Guide.

  - Over a third of companies in groups are life insurers.

  - Groups range in size from 2 to 29 companies.

  - Average group size is four companies.

    - There is an average of two property/casualty companies per group.

- The main issue concerning groups is the extent to which companies within them function as one large company as opposed to being independent operating units.

- This point is critical from a computer services marketing standpoint for two reasons:
  - There will be a reduction in the total number of buying units.
  - Those remaining will be of a larger size with, perhaps, different needs and system requirements.

- INPUT's research suggests that where members of a group are located in the same city, they function as one unit; otherwise, there is a 50-50 chance of companies operating independently.

- As an illustration of these issues, suppose there is a group with five constituent companies located in two cities, as shown in Exhibit IV-4.
  - If looked at individually, all the companies appear to be within the INSCO size range.
  - If viewed as "city units," both may be too large to be attractive.
  - If all five function as a single unit, then the group is of no interest to INSCO.

- The group relationships in companies interviewed were quite varied. Examples include:
  - The Andover Group, Exhibit IV-5, that is, in reality, a single $100 million company.
  - The Sentry Group, Exhibit IV-6, where the "Minute Man" companies keep their own identities, but are totally dependent on Sentry computer processing.

EXHIBIT IV-4

A HYPOTHETICAL GROUP

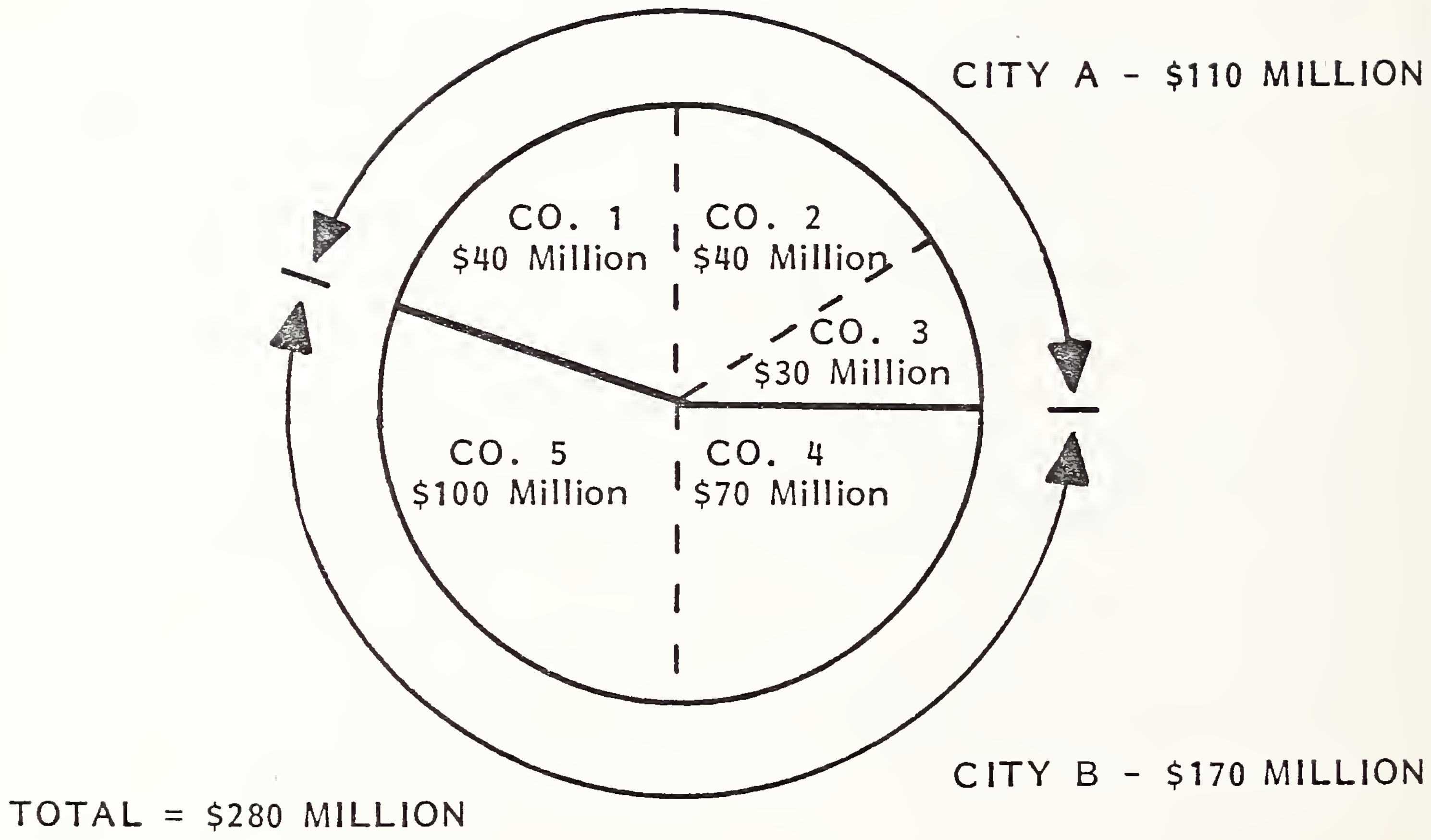


EXHIBIT IV-5

GROUP EXAMPLE - ANDOVER GROUP

- THESE ARE THREE LEGALLY SEPARATE COMPANIES THAT OPERATE AS ONE UNIT.
  - BAY STATE INSURANCE ($7 MILLION).
  - CAMBRIDGE MUTUAL ($60 MILLION).
  - MERRIMACK MUTUAL ($34 MILLION).
- LOCATED IN ANDOVER, MASSACHUSETTS (SAME BUILDING).

EXHIBIT IV-6

GROUP EXAMPLE - SENTRY GROUP

- SENTRY INSURANCE, STEVENS POINT, WISCONSIN.
- "MINUTE MAN" COMPANIES, CONCORD, MASSACHUSETTS (SAME BUILDING). MIDDLESEX ($44 MILLION), PATRIOT GENERAL ($9 MILLION).
  - BEST'S: "RELATED BUT CONDUCTING SEPARATE OPERATIONS."
  - OPERATIONS ARE UNITARY.
- DAIRYLAND, DAIRYLAND MUTUAL, GREAT SOUTHWEST, SCOTTSDALE, ARIZONA.
  - BEST'S: "COMMUNITY OF INTEREST WITH SENTRY GROUP, BUT INDEPENDENTLY OPERATED."
- ALL CONSTITUENTS ARE CONTROLLED AND ADMINISTERED CENTRALLY.
  - CLAIMS ADMINISTRATION FOR ALL COMPANIES HANDLED GEOGRAPHICALLY.
  - A SINGLE ON-LINE DATA PROCESSING NETWORK WITH ALL PROCESSING AT STEVENS POINT.
    - AFTER "MINUTE MAN" COMPANIES WERE ACQUIRED IN MID 1970s, THEIR INDEPENDENT SYSTEMS CONVERTED.
    - "MINUTE MAN" COMPANIES ARE AMERICAN AGENCY, WHILE SENTRY IS A DIRECT WRITER.

  - The Berkshire-Hathaway Group, Exhibit IV-7, whose constituents have considerable autonomy and are sometimes able to make independent computer systems decisions.

- INPUT has estimated, based on its analysis of personal line insurers for constructing an interview sample, that personal line companies have the following characteristics:

  - Of all companies which have between \$4 and \$100 million in direct premiums themselves, 15% are members of groups larger than \$100 million.

  - Of the remaining personal line companies, 60% are independent and 40% belong to groups.

- All the estimates can be made exact by a computer analysis of Best data on magnetic tape.

  - A recommended programming specification is described in Appendix B.

  - An unsuccessful attempt was made to generate such a report in February 1981.

D. GEOGRAPHY

- The INSCO target is the northeast and midwest.

  - Chicago on the west.

  - Cincinnati and Washington D.C. on the south.

EXHIBIT IV-7

GROUP EXAMPLE - BERKSHIRE HATHAWAY

- THE GROUP IS LOOSELY COUPLED WITH OPERATIONAL INDEPENDENCE.
  - THERE ARE 13 COMPANIES IN 9 CITIES.
  - HOME AND AUTO (INSCO CLIENT) IN CHICAGO IS PART OF THE GROUP.
- SEVERAL COMPANIES IN GROUP ARE NOW INSTALLING ISA.
  - COORDINATED PURCHASE, BUT UNCOORDINATED INSTALLATION AND TAILORING.
- THERE IS THE "POSSIBILITY" THAT HOME AND AUTO MAY HAVE TO USE ISA AS PART OF A GROUP DECISION.

- This area includes about half of all property casualty companies, based on an estimate from a sampling of Best Key Rating Guide data drawn upon in the course of conducting interviews.

E. MARKET SEGMENTATION

- Putting together all the market segmentation findings made earlier in this chapter produces the "tree" shown in Exhibit IV-8.

- INPUT believes that this estimate is substantially correct. However, the linking together of independent estimates assumes that all members of a class are evenly distributed, e.g.,:

    - That there are no regional variations.

    - That groups with a relatively few companies have the same characteristics as those with many companies.

    - It is believed, for example, that a company of under $12 million is much less likely to be a group member than one of between $12 and $100 million.

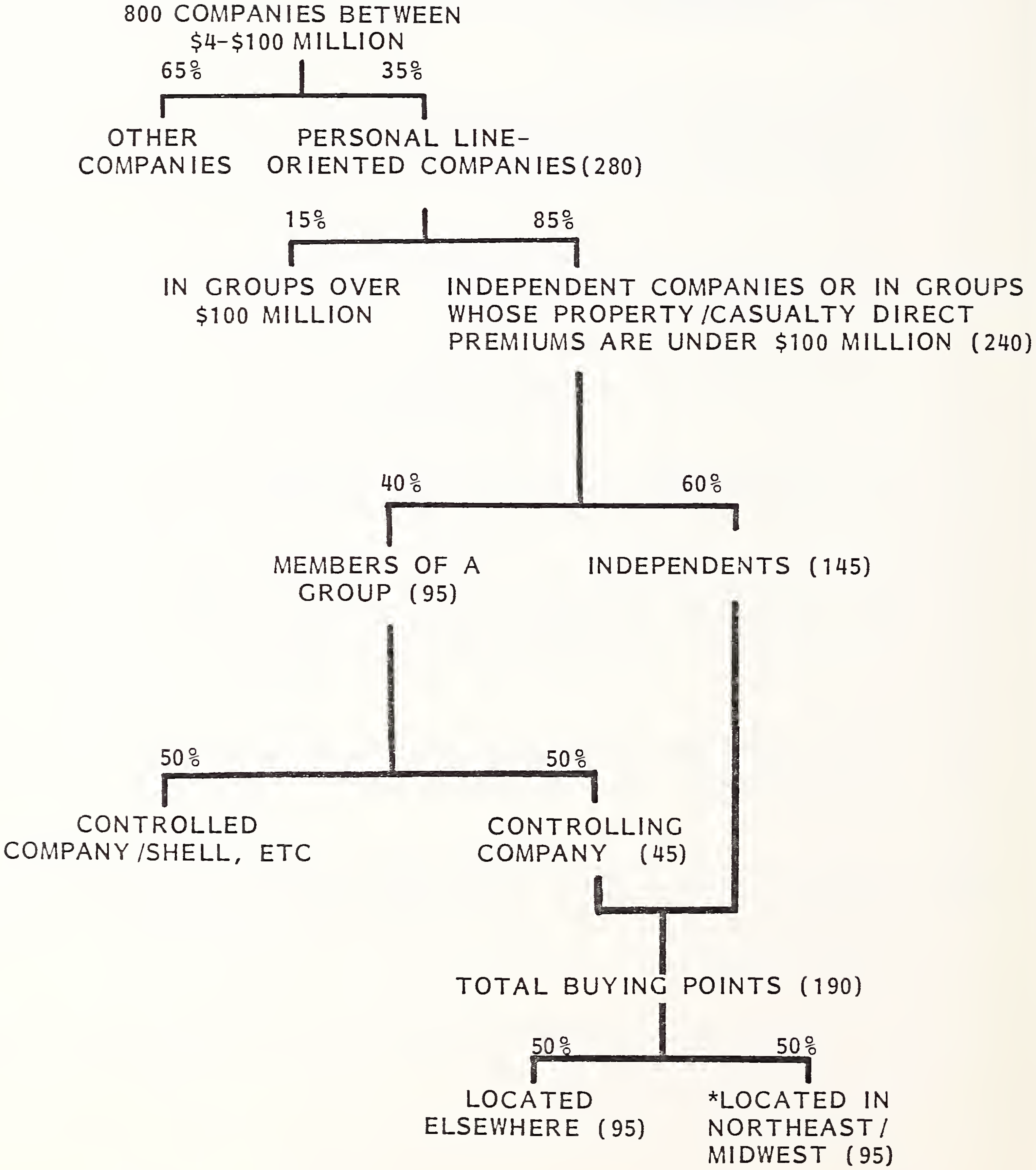
- The computer program in Appendix B would give precise answers to each cell in Exhibit IV-8.

- Exhibit IV-9 restates Exhibit IV-8 to show the number of different "buying points" (i.e., a company or group less $100 million) for personal and commercial line companies.

    - There are less than 200 personal line prospects, with half that number in INSCO's target area.

EXHIBIT IV-8

INSURANCE MARKET SEGMENTATION


800 COMPANIES BETWEEN $4-$100 MILLION
65%
35%
OTHER COMPANIES
PERSONAL LINE-ORIENTED COMPANIES (280)
15%
85%
IN GROUPS OVER $100 MILLION
INDEPENDENT COMPANIES OR IN GROUPS WHOSE PROPERTY/CASUALTY DIRECT PREMIUMS ARE UNDER $100 MILLION (240)
40%
60%
MEMBERS OF A GROUP (95)
INDEPENDENTS (145)
50%
50%
CONTROLLED COMPANY/SHELL, ETC
CONTROLLING COMPANY (45)
TOTAL BUYING POINTS (190)
50%
50%
LOCATED ELSEWHERE (95)
*LOCATED IN NORTHEAST/MIDWEST (95)

*INSCO TARGET GROUP

EXHIBIT IV-9

NUMBER OF BUYING POINTS*

LINE OF INSURANCE	GEOGRAPHICAL		TOTAL
	NORTH-EAST	OTHER	
PERSONAL	95	95	190
COMMERCIAL	190	190	380
TOTAL	285	285	570

*BUYING POINTS = INDEPENDENT COMPANY OR GROUP BETWEEN $4 AND $100 MILLION

- Market segment sizes can be estimated by applying the following factors to the buying point data in Exhibit IV-9.

  - An average of $30 million in direct premiums per buying unit (i.e., 570 buying points with $17 billion in direct premiums).

  - Vendor data processing services at 0.5% of direct premiums, as shown in Exhibit IV-3.

- The total market is under $100 million, with that for personal lines in the northeast/midwest approximately $16 million, as shown in Exhibit IV-10.

EXHIBIT IV-10

MARKET SEGMENT SIZES FOR VENDOR SERVICES

LINE OF INSURANCE	($ MILLION) NORTH-EAST	($ MILLION) OTHER	TOTAL
PERSONAL	$16	$16	$32
COMMERCIAL	30	30	60
TOTAL	$46	$46	$92

V COMPETITIVE ENVIRONMENT

V COMPETITIVE ENVIRONMENT

A. PROFILE OF COMPETITIVE ENVIRONMENT

- There are two leading firms.
  - ISA, PMS.
- There are several secondary established firms.
  - Lycor (turnkey systems).
  - Midwest Data Services (Celina).
  - INSCO.
- There are other insurance company spin-offs/service bureaus.
  - Three user companies found in this survey are examples.
    - Security Casualty (Chicago).
    - Northeast Data Service (Boston).
    - Rockford Mutual.

- There are many very small firms that are mostly, but not necessarily, regional.
  - They can be technical leaders and create a market; for example:
    - Insurance Network Systems (NJ) is newly established and very small but is interactive and provides sophisticated functions for commercial line companies.
- In-house data processing.
- All current significant vendors are insurance company related. This is consistent with the expressed desires of insurance company customers to deal with an insurance company subsidiary, as shown in Exhibit V-1.
  - Industry specialist firms were accepted almost as well.
  - Independent software firms and hardware firms have a very low level of acceptance.
  - Differences in attitudes between type and size of company are small.

B. SPECIFIC COMPANIES

1. PMS/ISA

- They are viewed as being similar. They have universal respect, tinged with awe by the smaller, less informed companies.
- They are perceived as being very good technically.
- Most smaller companies see PMS/ISA systems as an enormous burden. Comments include:

EXHIBIT V-1

CUSTOMER PREFERENCE FOR TYPE OF VENDOR COMPANY

CUSTOMER COMPANY	RATING BY TYPE OF VENDOR COMPANY*			
	INDUSTRY SPECIALIST	INSURANCE COMPANY SUBSIDIARY	INDEPENDENT SOFTWARE COMPANY	HARDWARE COMPANY
MUTUAL				
UNDER $25 MILLION	2.7	4.0	2.2	2.0
OVER $25 MILLION	3.3	3.3	2.0	2.0
STOCK				
UNDER $25 MILLION	2.6	2.6	2.4	1.6
OVER $25 MILLION	3.4	4.3	1.9	1.3
AVERAGE - ALL COMPANIES	3.0	3.5	2.1	1.7

*5 = HIGH PREFERENCE, 3 = MEDIUM PREFERENCE; 1 = LOW PREFERENCE

  - "If customers range from $6 million to $1.5 billion, who's going to get better service?"

  - "There are 99 levels of budgeting; we don't have many more than 99 people."

  - "There are five feet of manuals to understand before we can even start to convert."

  - "We have to conform."

  - "They oversell top management."

  - "Conversion/modifications are not approached realistically."

  - "They too often view conversion as only a data processing project; if the whole company isn't involved, it won't work."

- INSCO picked the under $100 million market because it does not want to compete with PMS.

  - However, almost 60% of PMS software customers are under $100 million, as shown in Exhibit V-2.

  - The smallest is $6 million.

- INSCO should expect vigorous competition from PMS and, to a lesser extent, from ISA based on the interview response.

  - All companies who had selected a software vendor had decided on PMS or ISA, as shown in Exhibit V-3.

EXHIBIT V-2

PMS CUSTOMER BASE*

SIZE OF COMPANY	SOFTWARE	PROCESSING SERVICE			GRAND TOTAL
		PMS	NON-PMS	TOTAL	
$4-9.9	3	1	3	4	7
$10-24.9	8	6	5	11	19
$25-49.9	14	1	7	8	22
$50-99.9	22	3	3	6	28
100+	33	2**	3	5	38
TOTAL	80	13	21	34	114

*FOR COMPANIES USING BASIC INSURANCE SOFTWARE OR SERVICE, EXCLUDES THOSE USING SPECIALIZED PRODUCTS, E.G., REPORTING SYSTEMS.

** INCLUDES SEIBELS, BRUCE.

EXHIBIT V-3

SOURCES OF VENDOR SOFTWARE*

SOFTWARE VENDOR	NUMBER OF COMPANIES SELECTING
PMS	4
PMS OR ISA	1
ISA	1
CELINA (PROCESSING SERVICE; ISA-BASED)	1
UNIDENTIFIED	5
TOTAL	12

*FOR INTERVIEWED COMPANIES PLANNING NEW NEW SYSTEMS OR SIGNIFICANT SYSTEM CHANGES.

2. INSURANCE COMPANY SPIN-OFFS

- As noted earlier, all the significant vendors in the field are insurance company related. Celina and INSCO are certainly classic cases.

- This activity may be even more widespread than previously believed since in the course of conducting insurance company interviews three companies who were also vendors were discovered:

  - Security Mutual Casualty.

  - Quincy Mutual.

  - Rockford Mutual.

- It is notable that all the companies (and Celina) are small-to-medium sized, as shown in Exhibit V-4. Otherwise, they do not have a great deal in common except for being mutuals, which appears largely coincidental.

  - Both the Quincy and Rockford operations are inward-looking and regionally oriented; they are products of the mutual insurer outlook.

  - The Security Mutual operation is very commercially oriented and, while young and small now, may soon become a factor in the industry.

    - The question is whether there is much scope for a processing service.

- The technical approaches employed are also varied, as shown in Exhibit V-5.

  - Two are committed to their own software.

  - All except Rockford are moving into on-line, interactive processing.

EXHIBIT V-4

INSURANCE COMPANY SPIN-OFFS - PROFILES ONE

NAME	PARENT	PARENT SIZE ($ MILLION)	RELATIONSHIP	REASON FOR SERVICE
MIDWEST DATA SERVICES CELINA, OH	CELINA MUTUAL	$43	DIVISION	BUSINESS VENTURE
INS. PROCESSING INC. CHICAGO, IL	SECURITY MUTUAL CASUALTY	35	TO BE LEGALLY DISTINCT	BUSINESS VENTURE
MUTUAL DATA INS. INC. BOSTON, MA	QUINCY MUTUAL	44	LEGALLY DISTINCT	NEW ENGLAND MUTUAL CO-OP
ROCKFORD MUTUAL ROCKFORD, IL	ROCKFORD MUTUAL	17	DEPT.	PART OF LINKS TO COUNTY MUTUALS

EXHIBIT V-5

INSURANCE COMPANY SPIN-OFFS - PROFILES TWO

NAME	SOFTWARE SOURCE	NUMBER OF CLIENTS	CLIENT SIZE ($ MIL.)	REGIONAL	ACTIVELY MKTG.	YEAR EST.	TYPE OF SERVICE
MIDWEST DATA SERVICES	ISA	50	$2-25	YES-LARGE AREA	YES	1965	ON-LINE DDP
INS. PROCESSING	SELF	10	6-20	NO	YES	1977	ON-LINE
MUTUAL DATA INS., INC.	SELF; TO INSTALL PMS	14	4-50	YES-SMALL AREA	NO	1971	RJE*
ROCKFORD MUTUAL	SELF	65-70	EACH UNDER $1	YES-SMALL AREA	NO	1970s	RJE/-BATCH

*TO BE PARTLY INTERACTIVE AFTER PMS INSTALLED.

- Clients are all under $50 million, which appears to be close to the effective ceiling for these firms now.

  . Security Mutual, however, has much more substantial ambitions, both in target customer size as well as technology.

  . Security Mutual will be offering a totally interactive system for all major lines (commercial as well as personal) by mid-1981.

C. MODES OF SERVICE DELIVERY

- This section will summarize earlier points and introduce new material bearing on the relative acceptance of the different modes of service delivery by vendors. The three principal modes are:

  - Remote processing.

  - Vendor-supplied software.

  - Turnkey systems.

1. REMOTE PROCESSING

- In surveying company attitudes (as shown in Exhibit III-6), remote processing was the only mode to produce no favorable comment.

- This is borne out by the companies' future planning.

  - Only one company planning significant system enhancements intends to use a processing service (as shown in Exhibit III-10).

- There is still room for new entrants offering interactive systems, e.g.,

  - Security Mutual has gained 10 customers in three years for a state of the art on-line system.

  - Insurance Network Systems is selling an on-line system for commercial lines.

- Firms like Celina, PMS and Mutual Data Services offer on-line processing.

  - However, PMS already has half again as many software as processing customers in companies under $100 million.

- What is fairly certain is that the RJE type service is in decline. The five INSCO clients surveyed confirmed this. See the summary in Exhibit V-6 and details in Appendix C.

  - Satisfaction was medium.

  - All would prefer in-house hardware and software, although they saw vendor software as a more realistic choice.

  - The probability of change ranges from medium to high for four of the five.

    - Rockford will definitely be changing its subsidiary (who is the INSCO client) to its in-house system in 1982.

    - The year of the other changes was less certain, being largely dependent on each company's financial condition.

2. VENDOR-SUPPLIED SOFTWARE

- The increase in the use of vendor-supplied software should be significant in small companies, as was shown in Exhibits III-12 and III-13.

EXHIBIT V-6

PLANS OF FIVE CURRENT INSCO CUSTOMERS: SUMMARY

COMPANY	CHANGES DESIRED		YEAR	PROBABILITY
	HARDWARE	SOFTWARE		
HOME AND AUTO	IN-HOUSE	VENDOR, MAYBE ISA	1982+	MEDIUM
MONARCH	IN-HOUSE	VENDOR	?	MEDIUM-HIGH
PENINSULA	IN-HOUSE	VENDOR	-	LOW
ROCKFORD	IN-HOUSE	IN-HOUSE	1982	HIGH
UNITED GENERAL OF TEXAS	IN-HOUSE	VENDOR	1983-1985	MEDIUM-HIGH

SOURCE: APPENDIX C

- As discussed in Chapter III, companies are not extremely enthusiastic about using vendor-supplied software but see few options, especially if they want interactive systems.

  - PMS and ISA are the only real choices. The complexity and large-company orientation of these products leave the smaller companies feeling very uncomfortable.

  - Companies also see some loss of control and flexibility in using these bulky packages.

3. TURNKEY SYSTEMS

- The lack of current enthusiasm by companies for turnkey systems was discussed in Chapter III (see Exhibit III-6).

- Equally definite was the response to the question of whether it would make any difference who manufactured the hardware in a turnkey system, as shown in Exhibit V-7.

  - Over 80% had a preference toward a particular manufacturer.

  - Interestingly, of the ten who said that it would not make any difference six said that it would make a difference when faced with the names of particular manufacturers.

  - As might be expected, IBM led the list by a wide margin.

    - Whether a firm had IBM equipment currently did not appear to be a driving factor.

    - IBM's importance seemed to derive as much from the IBM name as from any intrinsic features. Several respondents mentioned

EXHIBIT V-7

TURNKEY HARDWARE PREFERENCES

QUESTION	PREFERENCE FOR SPECIFIC HARDWARE		TOTAL
	YES, WOULD MAKE A DIFFERENCE	NO, WOULDN'T MAKE A DIFFERENCE	
WOULD IT MAKE ANY DIFFERENCE WHO MANUFACTURED THE HARDWARE IN A TURNKEY SYSTEM?	18	10	28
DO YOU PREFER A SPECIFIC MANUFACTURER?*	17	6	23
- IBM	14	6	20
- HEWLETT-PACKARD	4	1	5
- OTHERS	4	2	6

*SEVERAL RESPONDENTS HAD MORE THAN ONE PREFERENCE that as far as general management knew, IBM was the only computer manufacturer.

  - Hewlett-Packard was, perhaps surprisingly, the second choice. It was mentioned because people liked H-P.

  - The remaining six were a mixture of companies.

    - Honeywell was not mentioned favorably by any respondent.

- While IBM would appear to be in an unbeatable position, it has two disabilities.

  - It is a "name" rather than having specific, known qualities (in contrast to H-P).

  - It is the high-cost alternative.

    - Lycor, which will put its software on any minicomputer, says that all its prospects and customers so far have lost interest in IBM when they see the price difference.

- Honeywell would probably be a viable vehicle for a turnkey system since its Level 6 equipment has found good acceptance.

  - It would not have to fight a negative image, in contrast to Burroughs. Burroughs is now faced with a number of recent lawsuits from customers charging overselling of its small computers.

  - However, Honeywell would not bring a positive image with it.

- Vendors now trying to sell turnkey systems have not been very successful to date.

- PMS offers what it considers a turnkey option (where it takes full responsibility for installation, conversion, etc.).
    - One out of 16 sales in 1980 was a "turnkey" system.
- Lycor sells only turnkey systems and has been offering a property/casualty product since 1974.
    - It has had "seven or eight" sales since then.
    - It has been "pushing harder" for the last two years and has sold "three or four" in that period.
- AID has been attempting to sell a second turnkey system without success in New England for three years (according to the vice president at the Andover Group, its first and only customer).

- Since INSCO has been discussing the acquisition of the AID package, the opinion of the VP for accounting and data processing is important.
    - He is new to Andover, comes from a highly automated midwest company and appears quite knowledgeable and perceptive.
    - The AID system was a joint venture with the Andover Group in the mid-1970s. It was supposed to cost $50,000. It finally cost $225,000.
    - Andover is very satisfied but the system is limited.
        - It performs rating and issuing only.
        - It has no direct billing or accounting.
        - The system was supposed to hold 100,000 policies, but holds only 65,000.

        - There is no mainframe link.

    - To date all data from the AID system has to be fed back into its batch statistical system and its very efficient manual system.

        - While the AID system does what it is supposed to, it does not perform any vital function.

    - The Andover group will be totally automated over the next few years and will select PMS or ISA by mid-1981. (An RFP was issued in December 1980.)

        - Andover will be analyzing whether it is worthwhile to invest more resources into expanding and enhancing the AID system to serve as a front end to PMS/ISA.

        - It is possible that the AID system will be abandoned when PMS/ISA is installed.

- The strong implication is that the AID system, even if enhanced, would not prove a strong barrier against PMS/ISA penetration.

D. PERSONAL LINES VERSUS COMMERCIAL LINES

- This study was defined as one that would examine the personal lines marketplace.

    - The questionnaires were designed accordingly.

    - Companies with significant personal lines business were interviewed.

  - The great majority of each interview dealt with the company's personal lines.

- However, there were recurring references to issues concerning commercial lines that suggest that this market should be examined.

- It is instructive to contrast the differences between the market for data processing services aimed at personal lines and commercial lines functions.

- The personal lines market has the following characteristics:

  - It is relatively small, as was shown in Exhibit IV-10.

  - There is approaching saturation for "basic" data processing services, i.e., most companies have been automated for some time.

  - There is still potential for "next generation" systems. The components include (in order of priority):

    - On-line, interactive systems.

    - More flexibility and company control.

    - Data base orientation.

  - There are two established market leaders, but there is dissatisfaction with their packages' bulkiness.

- The commercial lines market has these features:

  - It is a relatively large market, compared to personal lines.

  - It is less automated in the small companies.

  - The smaller companies are unsure how to proceed.

  - Commercial offerings are picking up speed.

  - PMS is half way through the introduction of a complete commercial lines package.

  - ISA is offering commercial line products.

  - A new entrant offers only commercial lines services.

  - There is a potential for growth. No firm appears to be established.

- There is little evidence that a vendor would have to offer a full package of both personal and commercial lines data processing services in order to be able to sell a commercial lines company.

  - Obviously, this is even less true for a company that is primarily a commercial lines company.

VI RECOMMENDATIONS

VI RECOMMENDATIONS

A. NEEDS SATISFACTION

- A successful product should be able to satisfy the key needs described in the earlier chapters of this study.

- Hardware should be on-site.

    - IBM equipment should be an option.

- Software should provide:

    - Maximum feasibility and control to companies.

    - On-line interactive features.

    - Data base and feasible reporting features.

- All personal and commercial lines should be supported, at the company's option.

- The product should be non-threatening and supportive for smaller companies in two ways:

  - Functionally it should be easy to master and relate to unique needs; no "five foot shelf of books" approach.

  - The data processing department's organizational position and status should be supported, not undermined.

- Exhibit VI-1 summarizes the extent to which current modes of delivery meet these needs. All modes now suffer from one or more significant defects.

  - Remote processing does not provide.

    - On-site hardware.

    - Flexibility and control in software.

    - A non-threatening environment.

  - ISA/PMS software is:

    - Somewhat threatening.

    - Difficult for the smaller company to control and take advantage of.

  - Turnkey systems do not provide:

    - Flexibility and control in software.

    - A non-threatening environment.

    - A choice of hardware.

  - In-house software suffers from a lack of sufficient resources needed for:

EXHIBIT VI-1

EXTENT TO WHICH DIFFERENT MODES OF DELIVERY MEET COMPANY NEEDS

NEED	MODE OF DELIVERY			
	REMOTE PROCESSING	ISA/PMS SOFTWARE	TURNKEY SYSTEMS	IN-HOUSE SOFTWARE
HARDWARE				
ON-SITE	1	5	5	5
IBM OPTION	1	5	3	5
SOFTWARE				
FLEXIBILITY AND CONTROL	2	3	2	4
ON-LINE INTERACTIVE	4	4	4	2
DATABASE AND REPORTING	3	3	3	3
ALL LINES OFFERINGS	3*	3*	3	2
NON-THREATENING				
FUNCTIONALLY	2	3	2	3
TO DP DEPT.	1	2	1	5

KEY: EXTENT TO WHICH DELIVERY MODES MEET NEEDS
5 = HIGH, 3 = MEDIUM, 1 = LOW

* INCREASING

        - Developing on-line systems.
        - Expanding into all lines.
        - Providing all functions and reporting needed.

B. TURNKEY SYSTEMS

- INPUT recommends against proceeding with turnkey products in general.
    - There is a lack of customer enthusiasm for the concept.
    - There is a preference for in-house controlled software.
    - There has been a lack of market acceptance of current products.
- The AID product appears riskier than others.
    - It has apparently been limited to one site for several years.
    - The product has very limited features and may be difficult to expand.
    - There is the possibility of pilot site abandonment.
- Lycor is a better choice if INSCO is determined to offer a turnkey product.
    - It has seven or eight customers.
    - There is a more complete product.
    - Lycor indicated it was willing to license its product.

- Start-up could be virtually immediate.

C. PROPOSED NEW PRODUCT

- During the analysis it became clear that no current mode of delivery fully met the needs of small companies.

- A product which met company needs would have the following characteristics:

  - It would be a software product with technically advanced characteristics that would function on IBM hardware. It should have a:

    - Data base management system.

    - Data communications capacity.

    - Report writer.

    - Generalized transaction processor.

  - At the same time the software should purposely be incomplete from an applications standpoint.

    - This would eliminate the tailoring otherwise necessary.

    - It would respond to real and imagined uniqueness in companies.

    - The product would be non-threatening and if supplied with the right level of documentation, consulting and skeleton modules could be very supportive.

- The software product could be implemented by buying ready-made non-insurance software and setting up an insurance software framework.

  - The key element would be becoming a marketing license for:

    - An existing data base management package, e.g., System 2000, IDMS.

    - An associated communications monitor and report writer.

  - INSCO would then have to develop an ancillary software framework. This would include:

    - Several optional data base designs that customers could use as they saw fit.

    - An insurance transaction processor tied to the data base management system (e.g., to protect data integrity).

    - Table designs (e.g., for rating).

    - Standard report designs.

    - Customers could use some or all of the above. The customer would be responsible for all application coding.

- This last point might be considered regressive by some. But it would be more functional in many cases than pseudo-universal programs and would definitely meet customer needs.

- INSCO would develop generalized conversion aids, since there would be a definite need for making sales. However, converting to the new product would be significantly different from the typical PMS/ISA conversion.

  - PMS/ISA expect the client to change his procedures, coding, etc., to fit the structure already established.

  - The new product would offer the option of being modified itself if that was what the customer needed or wanted.

  - This should provide a significant functional and marketing advantage.

- There would be functional advantages to many of the smaller insurers.

  - Data management and communications software would be off the shelf.

    - Little development time would be needed.

    - No investment in dollars or personnel would be needed.

    - It would be known and reliable.

    - It could be used for other customer functions.

  - IBM hardware/software is understood.

    - There would be no (or marginal) hardware upgrades needed in many companies.

    - Cheap used equipment is available; the 4300 series is another option.

  - The customer would have control and knowledge.

    - Software could conform to customer rather than vice versa.

    - Intermediary conversion steps would be removed; customers would not have to understand details of a foreign application or translate from one coding structure to another.

    - There could be faster response to necessary changes.

    - Small companies could have "paraprogrammers."

  - Customers could automate whichever lines they wished.

- The marketing approach would stress the unique, "friendly" characteristics:

  - An open-ended package allows for each company's uniqueness to be expressed.

  - A modern data base management system and facilities for on-line communications bring a company up to date.

    - Company and DP management can focus on applications software.

  - The company will have complete control, and does not have to feel dependent and naked.

  - What is good for a $1.5 billion company may be too much for a $20 million company.

  - The DP staff can keep its empire, if that is a priority.

- INSCO total image could soon become equal to or superior to that of ISA/PMS among the smaller companies.

- Exhibit VI-2 adds "proposed INSCO software" to the list of modes of delivery in Exhibit VI-1.

EXHIBIT VI-2

EXTENT TO WHICH DIFFERENT MODES OF DELIVERY MEET COMPANY NEEDS (PROPOSED INSCO PRODUCT INCLUDED)

NEED	MODE OF DELIVERY				
	REMOTE PROCESSING	ISA/PMS SOFTWARE	TURNKEY SYSTEMS	IN-HOUSE SOFTWARE	PROPOSED INSCO SOFTWARE
HARDWARE					
ON-SITE	1	5	5	5	5
IBM OPTION	1	5	3	5	5
SOFTWARE					
FLEXIBILITY AND CONTROL	2	3	2	4	5
ON-LINE INTERACTIVE	4	4	4	2	5
DATABASE AND REPORTING	3	3	3	3	5
ALL LINES OFFERING	3*	3*	3	2	4
NON-THREATENING					
FUNCTIONALLY	2	3	2	3	5
TO DP DEPT.	1	2	1	5	4

KEY: EXTENT TO WHICH DELIVERY MODES MEET NEEDS
5 = HIGH, 3 = MEDIUM, 1 = LOW

*INCREASING

- At least potentially, this new product concept could meet all the needs of the small company where no competitor is doing this now.

- There are several potential disadvantages to the product proposal:

  - There would be a significant resource commitment of dollars, people and especially time.

  - Even with the INSCO name, a systems house's established product and additional market research to refine the product's features, there is no guarantee that the marketplace would actually accept a product which utilized a different approach.

  - Would the Continental Group wish to provide resources to build a desirable insurance software product that could provide additional competition to itself and reduce the perceived value of its proprietary software?

APPENDIX A: INTERVIEWS CONDUCTED

APPENDIX A: INTERVIEWS CONDUCTED

- Insurance companies. (*=on-site; **=INSCO customer)

  American Centennial
  *American Fidelity
  American Universal
  Beacon Mutual
  *Cambridge Mutual
  Comet Casualty
  Concord General
  Coronet Insurance Company
  Covenant Mutual
  Donegal Mutual
  Eveready Insurance Company
  General Casualty
  Goodville Mutual
  Holyoke Mutual
  **Home & Automobile Insurance Company
  *Kenilworth Insurance Company
  *Middlesex Insurance Company
  Midwestern Indemnity
  **Monarch Insurance of Ohio
  *Norfolk & Dedham
  Northwestern Casualty
  Pawtucket Mutual

**Peninsula Insurance Company of Maryland
*Pennsylvania Lumbermans
*Pennsylvania Mutual Fire
*Prestige Insurance Company
Puritan Insurance Company
**Rockford Mutal
*Security Mutual
**United General Insurance Company of Texas

- Data Processing Vendors.

  - Interviews were held with these vendors:

    - Insurance Network Systems, Sperta (NJ) (President).

    - Lycor, Inc., Indianapolis (IN) (Vice President).

    - Mid-West Data Systems, Celina (OH) (Systems Manager).

    - Mutual Data Insurance, Boston (MA) (Director).

    - Policy Management Systems, Columbia (SC) (AVP, Marketing).

  - In the course of two insurance company interviews, it became clear that the company also had a significant position as a service bureau and vendor-related questions were also asked:

    - Rockford Mutual, Rockford (IL) (Vice President).

    - Security Casualty ("Insurance Processing"), Chicago (IL) (VP).

  - An interview was also conducted with a regional representative of:

    - Insurance Systems of America.

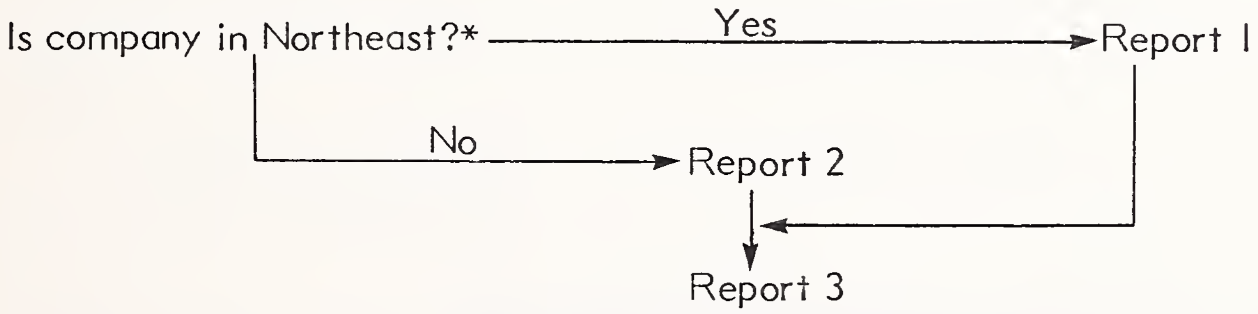
- Other.

  - Two very illuminating interviews were conducted with the (since departed) president of the Institute of Insurance Research.

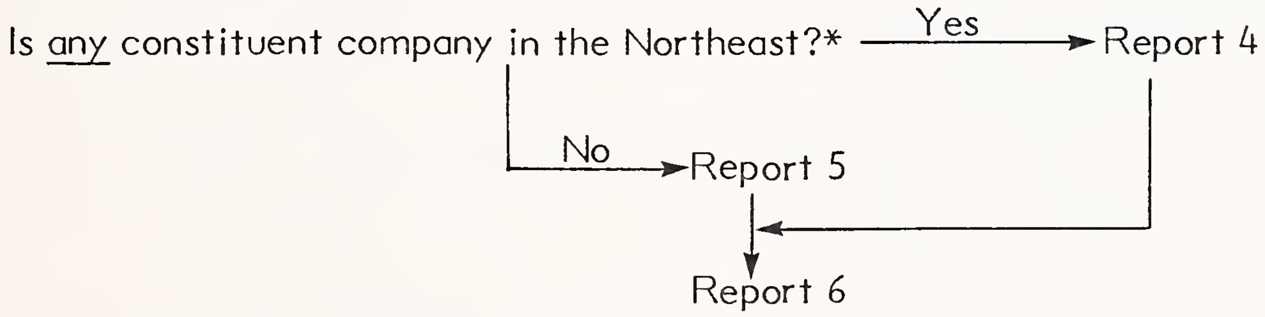
APPENDIX B: RECOMMENDED COMPUTER PROGRAM LOGIC TO DETERMINE MARKET SIZING AND SEGMENTATION

APPENDIX B: RECOMMENDED COMPUTER PROGRAM LOGIC TO DETERMINE MARKET SIZING AND SEGMENTATION

A. FOR EACH NON-GROUP COMPANY



B. FOR EACH GROUP (PROPERTY/CASUALTY MEMBERS ONLY)



* Northeast = NH, MA, CT, RI, NY, NJ, PA, DE, MD, DC, OH, IN, IL, MI
Zip 53xxx (Southern Wisconsin)

C. FOR EACH GROUP

- Identify constituent companies within a group that have the same zip code.

- Combine data for each constituent in the same zip code to form a "City Composite" for each group.

- Each "City Composite" will be a separate entry in a cell of the following reports.

  - If the "City Composite" is for the Northeast: Report 7.

  - If the "City Composite" is for the non-northeast: Report 8.

  - Total: Report 9.

D. PERSONAL LINES DIRECT PREMIUMS

1. NON-GROUP COMPANIES: NORTHEAST

- Numbers of companies by total direct premiums.

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
  Number of companies
  Amount of premiums

$4-9.9 million
  Number of companies
  Amount of premiums

$10 million and over
  Number of companies
  Amount of premiums

Total
  Number of companies
  Amount of premiums

2. NON-GROUP COMPANIES: OTHER THAN NORTHEAST

- Numbers of companies by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
  Number of companies
  Amount of premiums

$4-9.9 million

Number of companies
Amount of premiums

$10 million and over

Number of companies
Amount of premiums

Total

Number of companies
Amount of premiums

3. NON-GROUP COMPANIES TOTAL

- Numbers of companies by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0.3.9 million

Number of companies
Amount of premiums

$4-9.9 million

Number of companies
Amount of premiums

$10 million and over

Number of companies
Amount of premiums

Total

Number of companies

Amount of premiums

4. TOTAL GROUP: ANY CONSTITUENT COMPANY IN NORTHEAST

- Numbers of groups by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
Number of companies
Amount of premiums

$4-9.9 million
Number of companies
Amount of premiums

$10 million and over
Number of companies
Amount of premiums

Total
Number of companies
Amount of premiums

5. TOTAL GROUP: NO CONSTITUENT COMPANY IN NORTHEAST

- Numbers of groups by total direct premiums

  $ 0-3.9
  $ 4-24.9
  $25-99.9
  $ 100 + over
  Total

- Personal Lines Direct Premiums

$0-3.9 million
    Number of companies
    Amount of premiums

$4-9.9 million
    Number of companies
    Amount of premiums

$10 million and over
    Number of companies
    Amount of premiums

Total
    Number of companies
    Amount of premiums

6. TOTAL GROUP: ALL U.S.

- Numbers of groups by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
    Number of companies
    Amount of premiums

$4-9.9 million
    Number of companies
    Amount of premiums

$10 million and over
    Number of companies
    Amount of premiums

Total
    Number of companies
    Amount of premiums

7. GROUP CONSTITUENTS IN SAME ZIP CODE: NORTHEAST LOCATIONS

- Numbers of constituents by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
    Number of companies
    Amount of premiums

$4-9.9 million
    Number of companies
    Amount of premiums

$10 million and over
    Number of companies
    Amount of premiums

Total
    Number of companies
    Amount of premiums

8. GROUP CONSTITUENTS IN SAME ZIP CODE: LOCATIONS OTHER THAN NORTHEAST

- Numbers of constituents by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
    Number of companies
    Amount of premiums

$4-9.9 million
    Number of companies
    Amount of premiums

$10 million and over
    Number of companies
    Amount of premiums

Total
    Number of companies
    Amount of premiums

9. GROUP CONSTITUENTS IN SAME ZIP CODE: TOTAL U.S.

- Numbers of constituents by total direct premiums

$ 0-3.9
$ 4-24.9
$25-99.9
$ 100 + over
Total

- Personal Lines Direct Premiums

$0-3.9 million
    Number of companies
    Amount of premiums

$4-9.9 million
    Number of companies
    Amount of premiums

$10 million and over
    Number of companies
    Amount of premiums

Total
    Number of companies
    Amount of premiums

APPENDIX C: FUTURE PLANS OF FIVE INSCO CUSTOMERS

APPENDIX C: FUTURE PLANS OF FIVE INSCO CUSTOMERS

A. INSCO CUSTOMER PLANS: HOME AND AUTO

SIZE: $10 million

SATISFACTION

- Medium.
  - INSCO can't handle volume.
  - "They sometimes forget we're here."

CHANGES DESIRED

- In-house hardware.
  - INSCO mini proposal "interesting."
  - Intend to look over field to "get perspective."
- Prefer in-house developed software.

  - But feel probably not economic.

  - May be forced to use ISA because sister companies are installing.

RATIONALE FOR PREFERENCE

- In-house system can adapt easier to:

  - New lines.

  - New states.

YEAR OF CHANGE: 1982+

PROBABILITY: Medium.

B. INSCO CUSTOMER PLANS: MONARCH OF OHIO

SIZE: $30 million.

SATISFACTION

- Medium.
- Use several vendors.

CHANGES DESIRED

- Bring all processing in-house.
- Now talking to IBM about hardware.
- Assume will use a vendor software package.
- Cost justification will be important.

RATIONALE FOR PREFERENCE

- Common systems.
- Timeliness.

YEAR OF CHANGE: Unknown.

PROBABILITY: Medium-high.

C. INSCO CUSTOMER PLANS: PENINSULA INSURANCE OF MARYLAND

SIZE: $4 million.

SATISFACTION

- Medium.
  - INSCO Loss reporting in 1978 inaccurate.
    - Took year to recover.
  - Used previous service bureau for 21 years.
    - Owner retired.

CHANGES DESIRED

- Like to go in-house.
  - Probably not financially feasible.

RATIONALE FOR PREFERENCE

- Control.
- Quality.

YEAR OF CHANGE: Unknown.

PROBABILITY: Low.

D. INSCO CUSTOMER PLANS: ROCKFORD MUTUAL

(NOTE: Northern Illinois Farmers Mutual acquisition is INSCO customer.)

SIZE: $17 million - total.

SATISFACTION

- Medium.

CHANGES DESIRED

- Pull INSCO processing onto in-house systems.
- Changed to on-line systems in 1980.

RATIONALE FOR PREFERENCE

- Want common systems.

YEAR OF CHANGE: 1982.

PROBABILITY: High.

E. INSCO CUSTOMER PLANS: UNITED GENERAL INSURANCE OF TEXAS

SIZE: $18 million.

SATISFACTION

- Medium.
  - Timeliness.
  - Quality.

CHANGES DESIRED

- In-house system.

RATIONAL FOR PREFERENCE

- "In long run must go in-house because of growth."
- Control quality.
- Faster turnaround.

YEAR OF CHANGE: 1983-1985.

PROBABILITY: Medium-high.

APPENDIX D: QUESTIONNAIRES

CATALOG NO. Y I N S ☐ ☐ ☐

PROPERTY/CASUALTY INSURANCE VENDOR QUESTIONNAIRE

NOTE: Some questions will be intended to gain information on medium-sized property/casualty companies; some answers may refer to entire industry and will be so noted.

1. How large do you believe the market for vendor services to medium sized property/casualty companies ($10-100 million in direct premiums) is now and how much do you think it will grow over the next three years (not counting inflation)?

   Why?

1980	1981	1983	REASON

2. What would you estimate is the breakout of the kinds of services now being offered by vendors in general and do you think this will change over the next three years? ($ or %) (Estimates for medium-sized companies, if possible.)

	1980	1981	1983	REASON
PROCESSING				
Batch Services				
On-line batch (RJE)				
Interactive (terminals to vendor computer)				
Distributed Data Processing (minicomputer at customer site performing some processing, with other processing performed on vendor's machine)				
Turnkey systems				
Software only.				

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3. What do you believe are the chief motivating factors behind a medium-sized property/casualty company using an outside vendor for data processing services or products? Rate each factor from: High (5), Medium (3), Low (1)

	IMPORTANCE OF FACTOR				
	HIGH		MEDIUM		LOW
	5	4	3	2	1
Geographic location of the vendor					
Vendor size, financial resources					
General reputation of vendor					
References from current customers					
Number of current customer					
Time and effort required to implement					
Amount of support/training offered					
Cost*					
System reliability (errors, downtime)					
System features offered					
System features offered					
Flexibility (tailoring to needs)					
Extent of user control possible					
Transaction turnaround time					
Other					

* Acceptable price range per policy (or other standard) = $____________

4. Who do you see as your chief competitors in the entire property/casualty market and what is their approximate market share? Do you see these market shares changing? Why?

COMPETITOR	MARKET SHARE	REASON FOR CHANGE

5a. Do you believe there will be a significant trend toward having all of a medium-sized property/casualty's company's DP activities totally integrated?

- By this I mean:
  - A single data base (or series of data bases) accessible by all systems.
  - A single communications network.
  - Compatible, multipurpose hardware.
  - Single source software.
- Will this vary by company size? Discuss.

5b. Is this integration likely to occur?
Very Likely = 5, Somewhat Likely = 3, Unlikely = 1

Why?

5c. In your opinion would companies be willing to spend more money or allow more development or implementation time to achieve this?

YES ( ) NO ( )

If yes, about how much more?

6. Do you believe that it makes any significant difference to purchasers of turnkey systems that are sold by a third party who the manufacturer is (assuming that the third party takes responsibility for hardware maintenance)?

YES (it would make a difference) _____
NO (it would not make a difference) _____
Why?

If yes, what manufacturer's products would be especially well received?

If IBM: Would the cost differential be acceptable?

7. Currently what are the most significant problems in the property/casualty insurance industry and what can data processing do to alleviate them?

8. What trends do you see in the next three to five years in property/casualty insurance data planning?

9a. Which of the functional areas below do you see medium-sized property/casualty companies as now being:

Most likely to use services of outside vendors? (5 = Most, 3 = Somewhat likely, 1 = Unlikely)

What kind of service? (Batch, RJE, Interactive, Turnkey, Software only)

The reasons?

Whether there will be a change in usage patterns over, say the next three years?

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9b.

AREA	LIKELIHOOD	TYPE OF SERVICE	REASON	CHANGES
Policy data entry				
Underwriting				
Policy price quotation				
Policy issuance				
Premium calculation				
Billing, accounts receivable				
Commission calculation and payment				
Claims administration				
Loss calculation and reporting				
Policy data inquiry				
Reports				
Financial and accounting				
Statistical (Bureaus and government)				
Company management				
Policy rating				
Marketing communications support				
Reinsurance				
Investment management				
Modeling				

10. In which of the areas we just went over does your company now offer (or plan to offer) DP products or services? (Yes, No, Future)

Area	Batch	RJE	Inter-active	DDP	Turn key	Soft-ware	Product Name	Comments
Policy data entry								
Underwriting								
Policy price quotation								
Policy issuance								
Premium calculation								
Billing, accts. rec.								
Commission calculation, payment								
Claims administration								
Loss calculation,rpting								
Policy data inquiry								
Reports								
Fin'l & accting								
Stat. (Bur. & gov't)								
Company mgt.								
Policy rating								
Marketing support								
Reinsurance								
Investment mgt.								
Modeling								

11. I would like to get some more information about your company.

- Year established ________
- Number of clients by product:

PRODUCT	NUMBER OF CLIENTS

- Sales in the most recent year.

$__________million

FY __________

- Number of employees __________

- Do you write and maintain your own software?

  YES ( )   NO ( )

  - Why/why not?

- Do you ever sell your software on an OEM basis (i.e., to a third party reseller)?

  YES ( )   NO ( )
  REASON

- Could you send me a copy of:

  - Your last annual report ___________
  - Product brochures ___________

PROPERTY/CASUALTY INSURANCE COMPANY QUESTIONNAIRE

NOTE: Questions 8 & 13-17 will be asked during on-site interviews and where time permits in telephone interviews. These questions are marked by "*".

1a. I would like to understand how you handle your administrative functions; (e.g. rating, policy issuance, billing etc.) That is:

What you handle manually or by computer.

How satisfied you are with current arrangements.

What changes you anticipate 1981 and plans for 1983.

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Ib. First of all, so I can understand your company better, please tell me how your company's business is split between its major lines, measured by the percentage of policies in force and premium income. NOTE: If both measures not available, take either one.

	% OF POLICIES	% OF PREMIUMS	GROUPING
Personal lines			
Auto			
Assigned risk auto			
Homeowners/fire			
Other			
Commercial lines			
Auto			
Fire			
Liability			
Multi-peril			
Other			
	100%	100%	100%

1c. Are the administrative functions handled the same way for all lines?

YES ( ) NO ( )

If yes, go to question 3.

If no, which lines are handled similarly (i.e., how are they grouped)?

NOTE: Go back to 1a and fill in "Grouping" column.

2a. Are the differences significant?

YES ( ) NO ( )

If no, go to question 3.

If yes, go to question 2b.

2b. Of the lines or groups of lines that are handled differently, which two lines/groups are the most significant for your business?

1.____________ (most representative)
2.____________

2c. Does having differences in the way lines are handled cause problems?

YES ( ) NO ( )

Explain.

2d. Do you expect to change the administrative processes to make them more similar (e.g., use the same procedures as computer software)?

YES ( ) NO ( )

Explain.

2e. I would like to discuss individual administrative functions of the ____________ (most representative group) with you. After we have finished with this group, you can tell me how the other group differs from it. Let's start with how policy data is now collected and entered into your files. (Go to question 3a.)

3. I would like to discuss individual administrative functions with you starting with underwriting.

NOTE: Answers to questions 3a and 3b are filled in in 3c and 3d. Ordinarily, the same line in 3c and 3d will be completed before going on to the next; i.e., "policy data entry" will be finished for 1980 and 1983 before going on to "underwriting".

3a. Is your __________ function (from list on 3c) all-manual or computer-supported?

If a computer is used:

Describe the type of processing (batch, RJE, interactive, distributed, minicomputer, turnkey)

Whether the source of the system is in-house or vendor; if vendor, what is the vendor's name? Year installed?

What was the reason for selecting the approach used?

- Is the overall level of satisfaction with the administrative support for the __________ function high, medium or low (High = 5, Low = 1)

3b. Do you expect there to be changes within three years (i.e., by 1983)?

Is the probability of change occurring high (5), medium (3), or low (1)?

What is the probability of using a outside vendor? (high = 5, low = 1)

- What type of vendor would be used:
  - Remote processing.
    - Batch.
    - RJE.
    - Interactive (using computer at vendor site)
    - Distributed (vendor mini on your site)
  - Turnkey system.
  - Vendor-supplied software.
- What is the reason for using the type of vendor?

3c. and 3d.

	1980 ADMINISTRATIVE FUNCTIONS				1981 & 1983 CHANGES TO ADMINISTRATIVE FUNCTIONS					
		Computerized						Vendor		
	Manual	Type	Year/ Source	Reason	Satis- faction	Possible Change/Year	Prob.	Prob.	Type	Reason
Policy data entry										
Underwriting										
Policy price quotation										
Policy issuance										
Premium calculation										
Billing, accts. rec.										
Commission calculation, payment										
Claims administration										
Loss calculation,rpting										
Policy data inquiry										
Reports										
Fin'l & accting										
Stat. (Bur. & gov't)										
Company mgt.										
Policy rating										
Marketing support										
Reinsurance										
Investment mgt.										
Modeling										

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3f. In general, what is your company's attitude toward using administrative systems that are:

- Manual?
- Use in-house hardware?
- Use in-house developed software?
- Use vendor-supplied DP services?
    - Processing.
    - Software.
    - Turnkey.

4. NOTE: This question will be completed only if question 2 showed significant differences between the ways that the different lines are administered.

As we agreed earlier, we will next discuss the __________ (second) group of lines and how their administrative functions differ from the first.

5. How many computers and data processing terminals do you have now and how many do you expect to have next year and by the end of 1983?

	1980	1981	1983
Computer manufacturer	_____	_____	_____
Model number	_____	_____	_____
Number of units	_____	_____	_____
Computer manufacturer	_____	_____	_____
Model number	_____	_____	_____
Number of units	_____	_____	_____
Terminals	_____	_____	_____
Type	_____	_____	_____
Vendor	_____	_____	_____
Model number	_____	_____	_____
Number of units	_____	_____	_____
Number of locations	_____	_____	_____
Terminals	_____	_____	_____
Type	_____	_____	_____
Vendor	_____	_____	_____
Model number	_____	_____	_____
Number of units	_____	_____	_____
Number of locations	_____	_____	_____

6a. About how much do you spend annually on manual and computer administrative processing (rating, policy issuance, billing, etc.)

	1980	1981	1983	Reason For Change
Manual	$	$	$	
Computer	$	$	$	
TOTAL	$	$	$	

Is depreciation for purchased items and included? (e.g., computer systems)

YES ( ) NO ( )

If no, please estimate.

6b. Of your computer spending, how much is spent on outside vendors services?

	1980	1981	1983	Reason For Change
In-house				
*Outside				
Software				
Processing				
Equipment				
Other				
Total computer				

*Can be $ or % of budget as long as it is understood that total is same as the "computer" line in 6a.

6c. What proportion of computer processing is performed by:

	1980	1981	1983	Reason For Change	Opinion
Batch					
RJE					
Interactive (to mainframe)					
Standalone mini (interactive)					
Minis tied to mainframe (DDP)					
Other. Describe.					

*What units are used for the breakdown? ($, time, transactions, etc.)

6d. How do you rate these approaches (Very much in favor = 5, Somewhat in favor = 4, Don't know/no opinion = 3, Somewhat against = 2, Very much against = 1.)

7a. Do you currently use resources of an affiliated firm for system development or processing? Explain. NOTE: If necessary, show relationship in question 7c.

7b. Do you expect to do so in the next three years? Explain.

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7c. Affiliations with other insurance companies (or other non-insurance companies):

RELATIONSHIP (Parent, Sister, Child)	NAME	APPROXIMATE SIZE ($ MILLION PREMIUMS)

*8a. How do you now communicate with brokers and agents? Describe.

*8b. What percentage is via teleprocessing?

*8c. Do you expect the teleprocessing percentage to increase significantly in the next three years? Why? If yes, how much?

*8d. What impact do you see the pilot program of the Institute for Insurance Research having on your operations?

*8e. What is the number of your company's:

Branches: ______________________________

Salaried or exclusive agents (at how many locations):
_____________________ at _____ locations.

Independent agents (at how many locations):
_____________________ at _____ locations.

9a. If your company were to select an outside vendor to provide a data processing service, please indicate the extent to which each of the following factors would be of high, medium or low importance in reaching the decision?

	IMPORTANCE OF FACTOR				
FACTOR	HIGH		MEDIUM		LOW
	5	4	3	2	1
Geographic location of the vendor	___	___	___	___	___
Vendor size, financial resources	___	___	___	___	___
General reputation of vendor	___	___	___	___	___
References from current customers	___	___	___	___	___
Number of current customers	___	___	___	___	___
Time and effort required to implement	___	___	___	___	___
Amount of support/training offered	___	___	___	___	___
Cost*	___	___	___	___	___
System reliability (errors, downtime)	___	___	___	___	___
System features offered	___	___	___	___	___
Flexibility (tailoring to your needs)	___	___	___	___	___
Extent of user control possible	___	___	___	___	___
Transaction turnaround time	___	___	___	___	___
Other	___	___	___	___	___

*Acceptable price range per policy (or other standard) = $__________

9b. Who makes the final decision in your company on whether to purchase outside DP services or products?

To what extent is this dependent on the dollar amount involved?

9c. Who makes the recommendation on which the decision is based?

10. What type of insurance DP vendor in the list below would you feel comfortable in doing business with?
(5 = Very comfortable, 3 = Comfortable, 1 = Uncomfortable)

VENDOR TYPE	COMFORT LEVEL	COMMENT*
An independent specialist firm (e.g., ISA, LYCOR)	____	____________ ____________
A data processing subsidiary of a property/casualty company (e.g., Heritage, INSCO)	____	____________ ____________
An independent DP services firm that mainly offered non-insurance services (Informatics, MSA)	____	____________ ____________
A computer hardware company (e.g., IBM, Wang)	____	____________ ____________

*Would it make any difference if they were offering software only, a turnkey system, or providing vendor-site processing?

11a. If you were to acquire a turnkey system (where the seller maintained the hardware and software) would it make any difference to you who manufactured the hardware?

YES (it would make a difference) _____
NO (it would not make a difference) _____
Why?

11b. The following are some well-known manufacturers of computer hardware. What would your preference be toward having particular ones be part of a turnkey system? Would feel:

Very much in favor	(5)
Somewhat in favor	(4)
Don't care	(3)
Somewhat against	(2)
Very much against	(1)

MANUFACTURER	RATING	REASON
- Apple	_____	__________________
- Burroughs	_____	__________________
- Data General	_____	__________________
- Digital Equipment	_____	__________________
- Hewlett Packard	_____	__________________
- Honeywell	_____	__________________
- IBM	_____	__________________
- Univac	_____	__________________
- Wang	_____	__________________

Is there any other manufacturer you have an opinion of?

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12. Can you name some companies offering DP services or products to insurance firms that you have either done business with or heard of?

COMPANY NAME	DONE BUSINESS WITH	HOW HEARD OF	OPINION*	REASON

*Do you have an opinion of the firm? Is it high (5), medium (3), or low (1)? Why?

*13. Once your policy data has been accumulated in files (manual or DP) how do you use it for management purposes (e.g., risk selection, rate setting, cost reduction, etc.)

How could improvements be made?

Would computerization help?

*14a. What advantages and disadvantages would you see in having all of your company's DP activities totally integrated? By this I mean:

- A single data base (or series of data bases) accessible by all systems.
- A single communications network.
- Compatible, multipurpose hardware.
- Single source software.

*14b. Is this likely to occur? Why?
(Very likely = 5, Somewhat likely = 3, Unlikely = 1)

*14c. Would your company be willing to spend more money or allow more development or implementation time to achieve this?

YES ( ) NO ( )

If yes, about how much more?

*14d. Or make organization/management changes?

YES ( ) NO ( )

Reason?

*15a. What would be the characteristics of an ideal computer system for your company?

*15b. Do you know of any other company or vendor which has or is working on the type of system that you have in mind?

*15c. How likely do you think it will be that this will be achieved? Discuss.

*16. Currently, what are the most significant problems in the property/casualty insurance industry and what can data processing do to alleviate them?

*17. What trends do you see in the next three to five years in property/casualty insurance data processing?

18. I would like some additional information on your company's operations.

Direct premiums written in 1979?

$__________million

Profitability

$_________ million

Number of transactions (both manual and computer) handled annually?

Number of new policies issued?

Number of renewals?

Could you send me a copy of your firm's annual report.

OPPORTUNITIES IN PROVIDING DP SERVICES TO SMALL PROPERTY/CASUALTY COMPANIES

ABSTRACT

This study analyzed the DP needs and plans of small "under $100 million in direct premiums" property/casualty insurance companies. A significant degree of new and enhanced systems are planned. A considerable amount of in-house development will continue, with procurement of vendor-supplied software increasing. Remote processing services will decline sharply; turnkey systems are not favored. In this study, INPUT proposed a different approach whereby skeleton rather than detailed software could be offered.

Y-INS-100
March 1981

INPUT